

MONTGOMERY COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2016 AND 2015

MONTGOMERY COUNTY MEMORIAL HOSPITAL

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2016

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Kevin Cabbage, Chair	Stanton, Iowa	2018
Jim Robinson, Vice-Chair	Villisca, Iowa	2016
Kenneth Rech, Treasurer	Red Oak, Iowa	2020
Roger Ehmke, Secretary	Red Oak, Iowa	2016
Lorin Petersen	Stanton, Iowa	2020
Kathy Carlson	Red Oak, Iowa	2018
Sarah Smith	Red Oak, Iowa	2020
<u>Chief Executive Officer:</u>		
David Abercrombie	Stanton, Iowa	
<u>Chief Financial Officer:</u>		
Rick Leinen	Red Oak, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Montgomery County Memorial Hospital
Red Oak, Iowa

Report on the Financial Statements

We have audited the accompanying statements of net position of Montgomery County Memorial Hospital as of June 30, 2016 and 2015 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Montgomery County Memorial Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly in all material respects, the financial position of Montgomery County Memorial Hospital as of June 30, 2016 and 2015 and the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Hospital's Proportionate Share of the Net Pension Liability and of the Hospital Contributions (and the related notes) on pages 3 through 3e and on pages 29 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Montgomery County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 1 and 33 through 50 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Montgomery County Memorial Hospital

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2016 on our consideration of Montgomery County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Montgomery County Memorial Hospital's internal control over financial reporting and compliance.

Gomerwald, Ben, Kyhn & Co. P. C.

Atlantic, Iowa
December 15, 2016



Montgomery County Memorial Hospital

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MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2016, 2015, and 2014. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

FINANCIAL HIGHLIGHTS

The Hospital's net position increased in 2016 by \$2,110,430, or 12.1 percent. The Hospital's net position increased in 2015 by \$2,159,945 or 14.1 percent. See page 3b for explanation of the July 1, 2014 decrease.

The Hospital reported an operating income of \$499,344 in 2016 and \$222,530 in 2015. In 2014, the Hospital reported an operating loss of \$1,341,801.

Non-operating revenues were \$1,544,465 in 2016, \$1,872,463 in 2015, and \$1,514,172 in 2014. The largest component of non-operating revenues is county taxes, which have been approximately \$1.6 million each year (\$1.69 million in 2016).

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 3a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position, the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors must be considered to assess the overall health of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It explains what activities generated cash, how cash was used, and the change in the cash balance during the reporting period.

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets, deferred outflows of resources, and liabilities and deferred inflows of resources reported in the Statement of Net Position on page 4. The Hospitals' net position increased \$2,110,430 or 12.1 percent in 2016 and increased \$2,159,945 or 14.1 percent in 2015, as you can see in Table 2.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2016</u>	<u>2015</u>	<u>Not Restated 2014</u>
Assets:			
Current assets	\$ 12,231,049	\$ 9,150,650	\$ 8,322,301
Capital assets, net	17,725,251	19,111,380	18,962,253
Other noncurrent assets	9,310,339	10,230,239	9,421,667
Deferred outflows of resources	<u>2,133,042</u>	<u>1,652,795</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 41,399,681</u>	<u>\$ 40,145,064</u>	<u>\$ 36,706,221</u>
Liabilities:			
Long-term debt outstanding	\$ 5,605,671	\$ 6,179,442	\$ 6,686,386
Current liabilities	3,531,881	3,957,826	3,153,231
Net pension liability	<u>10,125,530</u>	<u>7,903,260</u>	<u>--</u>
Total liabilities	<u>\$ 19,263,082</u>	<u>\$ 18,040,528</u>	<u>\$ 9,839,617</u>
Deferred Inflows of Resources	<u>\$ 2,535,709</u>	<u>\$ 4,614,076</u>	<u>\$ 1,599,000</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 11,552,369	\$ 12,424,990	\$ 11,791,703
Restricted expendable assets	63,433	67,872	67,812
Unrestricted	<u>7,985,088</u>	<u>4,997,598</u>	<u>13,408,089</u>
Total net position	<u>\$ 19,600,890</u>	<u>\$ 17,490,460</u>	<u>\$ 25,267,604</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

The Government Accounting Standards Board (GASB) required a change in the method of accounting for the Hospital's pension costs during the 2014-15 year. The requirement resulted in significant changes to: net position (\$9,937,089 decrease), long-term liabilities (\$11,101,564 increase), and created a deferred outflow of resources (\$1,164,475) as of July 1, 2014. Although the Hospital's financial statement reporting has changed significantly, the requirement will have no effect on the Hospital's actual operations.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

Table 2 shows the components of the operating and non-operating activities and the resulting effect on changes in net position.

Table 2: Operating Results and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Not Restated 2014</u>
Operating Revenues:			
Net patient service revenues	\$ 35,098,151	\$ 30,324,311	\$ 27,849,127
Other operating revenues	<u>796,747</u>	<u>678,039</u>	<u>408,587</u>
Total operating revenues	35,894,898	31,002,350	28,257,714
Operating Expenses:			
Salaries and wages	15,988,359	14,447,692	13,312,117
Employee benefit	5,420,845	4,971,159	4,562,361
Professional fees	1,965,606	1,862,828	1,876,386
Other operating expenses	9,921,951	7,463,445	7,780,772
Depreciation and amortization	<u>2,098,793</u>	<u>2,034,696</u>	<u>2,067,879</u>
Total operating expenses	<u>35,395,554</u>	<u>30,779,820</u>	<u>29,599,515</u>
Operating income (loss)	499,344	222,530	(1,341,801)
Non-operating Revenues and Expenses:			
County taxes	1,686,144	1,673,120	1,583,328
Investment income	17,190	15,222	16,938
Noncapital grants and contributions	23,574	12,401	15,315
Other non operating revenues			
(expenses), net	<u>(182,443)</u>	<u>171,720</u>	<u>(101,409)</u>
Total non-operating revenues, net	<u>1,544,465</u>	<u>1,872,463</u>	<u>1,514,172</u>
Excess of Revenues Over Expenses			
Before Capital Grants and Contributions	2,043,809	2,094,993	172,371
Capital Grants and Contributions	<u>66,621</u>	<u>64,952</u>	<u>122,320</u>
Increase in Net Position	2,110,430	2,159,945	294,691
Net Position Beginning of Year	<u>17,490,460</u>	<u>15,330,515</u>	<u>24,972,913</u>
Net Position End of Year	<u>\$ 19,600,890</u>	<u>\$ 17,490,460</u>	<u>\$ 25,267,604</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis – Continued

OPERATING INCOME AND LOSS

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2016, the Hospital had an operating income of \$499,344; in 2015, the operating income was \$222,530; and in 2014, the Hospital had an operating loss of (\$1,341,801). The operating income in 2016 represents an increase of \$276,814 from the income in 2015, and the operating income in 2015 represents an increase of \$1,564,331 from the loss in 2014.

The primary components of these operating income and operating losses are:

Net patient service revenue increased \$4,773,840 or 15.7 percent from 2015 to 2016. Components of this include \$12,339,121 in increased patient charges (25.2%), \$7,436,858 in increased contractual adjustments (42.7%), and increased \$118,087 provision for bad debts and charity care. Accounts written off were higher from 2015 to 2016. The aging of accounts receivable shows a trend of newer accounts on the Hospital's books. It should also be noted that part of the increase in patient charges and related contractual adjustments are due to the hospital assuming management of Red Oak Internal Medicine for the years 2011-2016. In addition, Surgical Services were provided. Contractual adjustments include Medicare and Medicaid EHR incentive payments.

In 2016, contractual adjustments are 40.5 percent of patient service revenue, compared to 35.5 percent of patient service revenue in 2015, 34.4 percent in 2014, 34.2 percent in 2013, and 34.5 percent in 2012. The Hospital was designated as a Critical Access Hospital (CAH) effective October 1, 2004 by the Centers for Medicare and Medicaid Services, which lowered its contractual adjustments at that time. As a CAH, the Hospital is reimbursed defined costs for services provided to Medicare and Medicaid patients. Effective April 1, 2016, the State of Iowa Medicaid program switched to a managed care payment system, with payment rates based on previous year cost reports. Medicare patients represent about 51 percent of the Hospital's patient service revenue in 2016 (54 percent in 2015). Medicaid represents about 11 percent of the Hospital's patient service revenues in 2015 (10 percent in 2015).

Numerous factors affect the contractual adjustments, including changes in volume and patient mix, and the cost of labor, benefits, purchased services and supplies needed to provide patient services. The Hospital is reimbursed by Medicare and Medicaid at tentative rates until final settlement with the fiscal intermediaries. At the date of this report, one year of Medicare and two years of Medicaid cost reports have yet to be finalized.

In addition, the Hospital has payment contracts with commercial insurance carriers and preferred provider organizations that include discounts from established charges and prospectively determined rates as a basis of reimbursement. Many of the non-Medicare contractuals are continuing to increase. In particular, the Hospital's Wellmark business is at a discount of approximately 35%. With new payment systems in place we expect Wellmark's contractual allowances to remain consistent in 2017.

Salaries and wages costs increased \$1,540,667 or 10.7 percent from 2015 to 2016. Employee benefits increased \$449,686 or 9.0 percent in 2016.

MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

Total operating expenses increased \$4,615,734 or 15.0 percent from 2015 to 2016. Included in this is an increase in depreciation and amortization expense of \$64,097 or 3.2 percent. Depreciation includes the completion of the hospital's addition in August, 2010. Investments in new technology and replacement of aging capital assets in the past three years are resulting in decreased depreciation and equipment maintenance costs.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as net patient service revenues of the Hospital.

NONOPERATING REVENUES AND EXPENSES

Non operating revenues consist primarily of property taxes levied by the Hospital and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A.19 to the financial statements.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating income and non operating revenues and expenses, discussed earlier.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2016 was prepared on a modified accrual basis. Hospital revenues and expenditures were less than budgeted amounts during 2016 by \$644,125 and \$2,410,076, respectively. The budgeted amounts were higher due to higher anticipated bad debts, salaries and benefits expenditures and lower actual patient volume.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2016, the Hospital had \$17,608,680 invested in capital assets, net of accumulated depreciation (\$17,659,696 in 2015), as detailed in Note E to the financial statements. In 2016, the Hospital placed in service new property and equipment costing \$2,105,141 (\$1,358,054 in 2015; \$789,773 in 2014).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis – Continued

Debt:

At year-end, the Hospital had \$6,172,882 in Series 2009 note long-term debt outstanding as detailed in Note F (\$6,686,390 at June 30, 2015).

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer or Controller's Office at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Net Position
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 921,959	\$ 1,328,290
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$4,303,000 in 2016, \$1,933,000 in 2015)	8,045,362	5,007,875
Other receivables	22,790	227,897
Inventory	703,346	568,552
Prepaid expense	665,307	334,239
Estimated third-party payor settlements	100,000	--
Succeeding year property tax receivable	1,693,000	1,600,000
Internally designated assets	79,285	83,797
Total current assets	<u>12,231,049</u>	<u>9,150,650</u>
Designated and Restricted Assets:		
Internally designated assets	8,715,295	9,697,249
Restricted assets	63,433	67,872
	<u>8,778,728</u>	<u>9,765,121</u>
Less amounts required to meet current liabilities	79,285	83,797
	<u>8,699,443</u>	<u>9,681,324</u>
Capital Assets:		
Depreciable capital assets, net	17,608,680	17,659,696
Non-depreciable capital assets	116,571	1,451,684
	<u>17,725,251</u>	<u>19,111,380</u>
Other Assets:		
Notes receivable	90,000	22,500
Other	520,896	526,415
	<u>610,896</u>	<u>548,915</u>
Total assets	39,266,639	38,492,269
Deferred Outflows of Resources - Pension	<u>2,133,042</u>	<u>1,652,795</u>
Total assets and deferred outflows of resources	<u>\$ 41,399,681</u>	<u>\$ 40,145,064</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2016</u>	<u>2015</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 567,211	\$ 506,948
Accounts payable	798,841	697,879
Accrued salaries and wages	808,628	603,371
Accrued other employee compensation	939,643	855,493
Accrued interest payable	16,075	24,570
Accrued fees	11,000	14,862
Payroll taxes withheld and accrued	329,499	312,637
Other current liabilities	60,984	42,066
Estimated third-party payor settlements	--	900,000
Total current liabilities	<u>3,531,881</u>	<u>3,957,826</u>
Long-Term Liabilities:		
Notes payable, less current maturities	5,605,671	6,179,442
Net pension liability	<u>10,125,530</u>	<u>7,903,260</u>
Total long-term liabilities	<u>15,731,201</u>	<u>14,082,702</u>
Total liabilities	19,263,082	18,040,528
Deferred Inflows of Resources		
Deferred revenue for succeeding year property tax receivable	1,693,000	1,600,000
Pension related deferred inflows	<u>842,709</u>	<u>3,014,076</u>
	2,535,709	4,614,076
Net Position:		
Invested in capital assets, net of related debt	11,552,369	12,424,990
Restricted - expendable	63,433	67,872
Unrestricted	<u>7,985,088</u>	<u>4,997,598</u>
Total net position	<u>19,600,890</u>	<u>17,490,460</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 41,399,681</u>	 <u>\$ 40,145,064</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Revenue:		
Net patient service revenue	\$ 35,098,151	\$ 30,324,311
Other revenue	<u>796,747</u>	<u>678,039</u>
Total revenue	35,894,898	31,002,350
Expenses:		
Nursing service	8,561,422	8,248,150
Other professional service	16,797,346	13,343,199
General service	3,028,311	2,973,429
Fiscal and administrative service	4,909,682	4,180,346
Provision for depreciation	<u>2,098,793</u>	<u>2,034,696</u>
Total expenses	<u>35,395,554</u>	<u>30,779,820</u>
Operating Income	499,344	222,530
Non-Operating Revenue (Expenses):		
County taxes	1,686,144	1,673,120
Investment income	17,190	15,222
Gain (loss) on sale of property	(2,010)	214,673
Noncapital grants and contributions	23,574	12,401
Rental income, net	95,645	278,589
Interest expense	<u>(276,078)</u>	<u>(321,542)</u>
Non-operating revenue, net	<u>1,544,465</u>	<u>1,872,463</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	2,043,809	2,094,993
Capital Grants and Contributions	<u>66,621</u>	<u>64,952</u>
Increase in Net Position	2,110,430	2,159,945
Net Position - Beginning of Year	<u>17,490,460</u>	<u>15,330,515</u>
Net Position - End of Year	<u>\$ 19,600,890</u>	<u>\$ 17,490,460</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 31,265,771	\$ 30,631,650
Cash paid to suppliers	(18,038,668)	(15,175,801)
Cash paid to employees	(15,698,952)	(14,350,225)
Other revenue received	<u>796,747</u>	<u>678,039</u>
Net cash provided by (used in) operating activities	(1,675,102)	1,783,663
Cash flows from non-capital financing activities:		
County tax received	1,686,144	1,673,120
Noncapital grants and contributions	<u>23,574</u>	<u>12,401</u>
Net cash provided by non-capital financing activities	1,709,718	1,685,521
Cash flows from capital and related financing activities:		
Construction in progress expenditures	(271,925)	(860,663)
Purchase of property and equipment	(498,103)	(1,358,054)
Principal paid on long-term debt	(513,508)	(484,160)
Proceeds from disposal of assets	500	214,673
Interest paid	(284,573)	(323,321)
Capital grants and contributions	<u>66,621</u>	<u>64,952</u>
Net cash used in capital and related financing activities	(1,500,988)	(2,746,573)
Cash flows from investing activities:		
Investment income received	17,190	15,222
Increase in designated and restricted assets	(8,698)	(6,708)
Increase in notes receivable, net	(90,000)	--
Office building rental income	147,137	305,779
(Increase) decrease in other assets	<u>(679)</u>	<u>79,778</u>
Net cash provided by investing activities	<u>64,950</u>	<u>394,071</u>
Net increase (decrease) in cash and cash equivalents	(1,401,422)	1,116,682
Cash and cash equivalents at beginning of year	<u>9,207,086</u>	<u>8,090,404</u>
Cash and cash equivalents at end of year	<u>\$ 7,805,664</u>	<u>\$ 9,207,086</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 921,959	\$ 1,328,290
Cash and cash equivalents in internally designated assets	<u>6,883,705</u>	<u>7,878,796</u>
	<u>\$ 7,805,664</u>	<u>\$ 9,207,086</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 499,344	\$ 222,530
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Provision for depreciation	2,098,793	2,034,696
Amortization	28,698	28,645
Changes in assets and liabilities		
Accounts receivable	(2,832,380)	(678,661)
Inventory	(134,794)	(37,837)
Prepaid expense	(331,068)	9,544
Estimated third-party payor settlements	(1,000,000)	986,000
Deferred outflows of resources	(480,247)	(488,320)
Accounts payable, trade	104,324	(250,735)
Accrued salaries and wages	205,257	71,964
Accrued other employee compensation	84,150	25,503
Accrued fees	(3,862)	857
Payroll taxes withheld and accrued	16,862	40,895
Other current liabilities	18,918	2,810
Net pension liability	2,222,270	(3,198,304)
Deferred inflows of resources	<u>(2,171,367)</u>	<u>3,014,076</u>
Total adjustments	<u>(2,174,446)</u>	<u>1,561,133</u>
Net cash provided by (used in) operating activities	<u>\$(1,675,102)</u>	<u>\$ 1,783,663</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Montgomery County Memorial Hospital (the Hospital) is a critical access county hospital that provides acute care with related ancillary, outpatient, home health, hospice and physician clinic services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Hospital has one component unit. The Montgomery County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation and its financial statements should be discretely presented. However, the Foundation has limited assets and activity other than collecting contributions to be disbursed to the Hospital. Therefore, discretely presenting the component unit would not have a material effect on these financial statements.

The following is a summary of the Foundation's financial information as of and for the year ended June 30:

	<u>2016</u>	<u>2015</u>
Assets	\$ 420,350	\$ 415,044
Net Position	\$ 420,350	\$ 415,044
Net Revenues	\$ 5,306	\$ 262,930

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Hospital's policy to use restricted net position first.

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining the allowances for doubtful accounts and contractual adjustments.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

9. Designated and Restricted Assets

Internally designated assets consist primarily of funds designated by the Board of Trustees for operations and capital acquisitions and related property taxes. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, and funds whose use is limited by law or contractual agreements.

10. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of two years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

11. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest cost in 2016 or 2015.

12. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Hospital after the measurement date but before the end of the Hospital's reporting period.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

13. Compensated Absences

Hospital policies permit most employees to accumulate vacation, holiday, and sick time benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

14. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

15. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on IPERS investments.

16. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

17. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

18. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. By statute, the Board of Trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

19. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

20. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

21. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries.

Medicaid - Through March of 2016 the Medicaid payment system was similar to Medicare. In April the State of Iowa Medicaid program switched to a managed care payment system, with payment rates based on previous year cost reports. The Hospital will continue to file cost reports to determine payment rates for future years.

The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2015. The Medicaid cost reports have been finalized through June 30, 2014. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

A schedule of patient service revenue and related adjustments for the years ended June 30, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 11,747,803	\$ 13,997,849
Outpatient	<u>49,615,267</u>	<u>35,026,100</u>
Total gross patient service revenue	61,363,070	49,023,949
Deductions from gross patient service revenue:		
Medicare	11,512,525	8,621,498
Medicaid	2,498,724	2,212,506
Provision for bad debts	1,215,006	1,070,322
Charity care	13,755	40,352
Other deductions	<u>11,024,909</u>	<u>6,754,960</u>
Total deductions from gross patient service revenue	<u>26,264,919</u>	<u>18,699,638</u>
Net patient service revenue	<u>\$ 35,098,151</u>	<u>\$ 30,324,311</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE C - ENDOWMENTS AND RESTRICTED ASSETS

Restricted expendable assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Long-term debt	\$ <u>63,433</u>	\$ <u>67,872</u>

The Hospital has no restricted nonexpendable assets or endowments at June 30, 2016 or 2015.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2016</u>	<u>2015</u>
Payment of long-term debt	\$ <u>4,439</u>	\$ <u>--</u>
Purchase of property and equipment	<u>66,621</u>	<u>64,952</u>
	\$ <u>71,060</u>	\$ <u>64,952</u>

NOTE D - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2016 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. The designated purposes are identified in the following schedule.

	<u>2016</u>	<u>2015</u>
Capital acquisitions and related property taxes	\$ <u>15,852</u>	\$ <u>15,925</u>
Operations	<u>8,699,443</u>	<u>9,681,324</u>
	\$ <u>8,715,295</u>	\$ <u>9,697,249</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE D - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	<u>2016</u>	<u>2015</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 6,820,272	\$ 7,810,924
Certificates of deposit	1,892,280	1,884,883
Interest receivable	<u>2,743</u>	<u>1,442</u>
	<u>\$ 8,715,295</u>	<u>\$ 9,697,249</u>
Restricted Assets:		
Cash and cash equivalents	<u>\$ 63,433</u>	<u>\$ 67,872</u>

Interest Rate Risk. The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE E - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2016 and 2015 were as follows:

<u>Cost</u>	<u>Balance 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2016</u>
Land Improvements	\$ 2,048,506	\$ --	\$ --	\$ 2,048,506
Buildings	17,349,207	379,075	--	17,728,282
Building Service Equipment	11,215,232	202,559	--	11,417,791
Fixed Equipment	1,454,736	61,803	--	1,516,539
Major Movable Equipment	<u>14,417,642</u>	<u>1,461,704</u>	<u>37,099</u>	<u>15,842,247</u>
	46,485,323	2,105,141	37,099	48,553,365
<u>Depreciation</u>				
Land Improvements	1,508,592	104,879	--	1,613,471
Buildings	8,080,706	642,136	--	8,722,842
Building Service Equipment	6,610,390	397,423	--	7,007,813
Fixed Equipment	701,777	23,206	--	724,983
Major Movable Equipment	<u>11,924,162</u>	<u>986,003</u>	<u>34,589</u>	<u>12,875,576</u>
Total Depreciation	<u>28,825,627</u>	<u>2,153,647</u>	<u>34,589</u>	<u>30,944,685</u>
Depreciable Capital Assets, Net	<u>\$ 17,659,696</u>	<u>\$ (48,506)</u>	<u>\$ 2,510</u>	<u>\$ 17,608,680</u>
Construction in Progress	\$ 1,348,344	\$ 271,925	\$ 1,607,038	\$ 13,231
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 1,451,684</u>	<u>\$ 271,925</u>	<u>\$ 1,607,038</u>	<u>\$ 116,571</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE E - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
Land Improvements	\$ 2,024,771	\$ 23,735	\$ --	\$ 2,048,506
Buildings	17,236,248	264,759	151,800	17,349,207
Building Service Equipment	11,215,232	--	--	11,215,232
Fixed Equipment	1,342,759	111,977	--	1,454,736
Major Movable Equipment	<u>13,460,059</u>	<u>957,583</u>	<u>--</u>	<u>14,417,642</u>
	45,279,069	1,358,054	151,800	46,485,323
<u>Depreciation</u>				
Land Improvements	1,404,252	104,340	--	1,508,592
Buildings	7,536,618	695,888	151,800	8,080,706
Building Service Equipment	6,209,068	401,322	--	6,610,390
Fixed Equipment	684,327	17,450	--	701,777
Major Movable Equipment	<u>11,073,572</u>	<u>850,590</u>	<u>--</u>	<u>11,924,162</u>
Total Depreciation	<u>26,907,837</u>	<u>2,069,590</u>	<u>151,800</u>	<u>28,825,627</u>
Depreciable Capital Assets, Net	<u>\$ 18,371,232</u>	<u>\$ (711,536)</u>	<u>\$ --</u>	<u>\$ 17,659,696</u>
Construction in Progress	\$ 487,681	\$ 860,663	\$ --	\$ 1,348,344
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 591,021</u>	<u>\$ 860,663</u>	<u>\$ --</u>	<u>\$ 1,451,684</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,461,602, of which a portion is rented to local healthcare related organizations. The depreciation expense on all property and equipment totaled \$2,153,647 for the year ended June 30, 2016 (\$2,069,590 in 2015), of which \$54,854 (\$34,894 in 2015) is related to the rental space and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE F - LONG-TERM LIABILITIES

A schedule of changes in the Hospital's long-term liabilities for the years ended June 30, 2016 and 2015 follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2016</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2009 note	\$ 6,686,390	\$ --	\$ 513,508	\$ 6,172,882	\$ 567,211
Net pension liability	<u>7,903,260</u>	<u>2,222,270</u>	<u>--</u>	<u>10,125,530</u>	<u>--</u>
Total Long-Term Liabilities	<u>\$ 14,589,650</u>	<u>\$ 2,222,270</u>	<u>\$ 513,508</u>	<u>\$ 16,298,412</u>	<u>\$ 567,211</u>
	<u>Balance 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2009 note	\$ 7,170,550	\$ --	\$ 484,160	\$ 6,686,390	\$ 506,948
Net pension liability	<u>--</u>	<u>7,903,260</u>	<u>--</u>	<u>7,903,260</u>	<u>--</u>
Total Long-Term Liabilities	<u>\$ 7,170,550</u>	<u>\$ 7,903,260</u>	<u>\$ 484,160</u>	<u>\$ 14,589,650</u>	<u>\$ 506,948</u>

The Series 2009 Revenue and Refunding Capital Loan Note was issued in September, 2009 in a principal amount up to \$8,700,000. The note was issued to refund the Series 2003 notes and pay for a renovation and expansion project. The note carried an interest rate of 4.625% per annum through December 1, 2015. On December 1, 2015 the rate adjusted to 4.125%. On June 1, 2016 the rate was adjusted to 3.125%. On December 1, 2020, the rate will be adjusted to 1.375% over the five year Federal Home Loan Bank of Des Moines fixed advance rate in effect on those dates. Such rate increase, however, will be limited to a 1.75% increase over the preceding effective interest rate. Commencing December 1, 2010, the note matures in 60 equal quarterly installments (as adjusted for changes in the interest rate) of principal and interest.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE F - LONG-TERM LIABILITIES - Continued

The note is collateralized by future revenues of the Hospital. Under the terms of the note indenture, the Hospital is required to satisfy certain measures of financial performance as long as the note is outstanding. The note indenture also places limits on the incurrence of additional borrowings. The Hospital is also required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements.

The annual debt service on the notes and capital lease obligation is expected to require less than 19% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$798,100 and \$4,110,800, respectively.

Scheduled principal and interest repayments on the long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2017	\$ 567,211	\$ 186,299	\$ 753,510
2018	585,146	168,365	753,511
2019	603,647	149,863	753,510
2020	622,733	130,777	753,510
2021	642,423	111,087	753,510
2022-2026	<u>3,151,722</u>	<u>239,073</u>	<u>3,390,795</u>
	<u>\$ 6,172,882</u>	<u>\$ 985,464</u>	<u>\$ 7,158,346</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE G - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include succeeding year property tax and pension plan earnings. The succeeding year property tax represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Pension earnings represent the net difference between projected and realized earnings on pension plan investments:

	2016	2015
Deferred succeeding year property tax	\$ 1,693,000	\$ 1,600,000
Pension earnings	842,709	3,014,076
	<u>\$ 2,535,709</u>	<u>\$ 4,614,076</u>

NOTE H - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided by general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except for members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Hospital contributed 8.93% of covered payroll for a total rate of 14.88%.

The Hospital's contributions to IPERS for the year ended June 30, 2016 were \$1,362,320.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Hospital reported a liability of \$10,125,530 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Hospital's proportion was 0.204950%, which was an increase of 0.009667% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Hospital recognized pension expense of \$932,444. At June 30, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 152,984	\$ --
Changes of assumptions	278,781	--
Net difference between projected and actual earnings on pension plan investments	--	842,709
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	338,957	--
Hospital contributions subsequent to the measurement date	<u>1,362,320</u>	<u>--</u>
	<u>\$ 2,133,042</u>	<u>\$ 842,709</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

The \$1,362,320, reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts, reported as deferred outflows of resources and deferred inflows of resources, will be recognized in pension expense as follows:

<u>Year Ended</u> <u>June 30,</u>	
2017	\$(203,865)
2018	(203,865)
2019	(203,865)
2020	512,030
2021	<u>27,578</u>
	<u><u>\$(71,987)</u></u>

There were no non-employer contribution entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increases (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

The long-term expected rate of return on IPERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of IPERS investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	<u>\$ 17,727,981</u>	<u>\$ 10,125,530</u>	<u>\$ 3,708,515</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE H - PENSION PLAN - Continued

IPERS Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2016, the Hospital reported payables to the defined benefit pension plan of \$106,203 for legally required employer contributions and \$70,764 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE I - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2016, was approximately \$2,585,660, (\$3,178,200 at June 30, 2015). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE J - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Myrtue Medical Center of Harlan) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2016</u>	<u>2015</u>
Services purchased from HPSI	\$ <u>77,873</u>	\$ <u>83,341</u>
Services and supplies provided to HPSI	\$ <u>33,518</u>	\$ <u>28,208</u>
Amount due (to) from HPSI	\$ <u>3,007</u>	\$(<u>12,878</u>)
Member share of net position	\$ <u>499,022</u>	\$ <u>491,230</u>

The member share of net position is included in other assets and the amount due to HPSI is included in accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI are on file at the Hospital and the office of the State Auditor.

Montgomery County Memorial Hospital Foundation

Montgomery County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation, therefore the Foundation is considered to be a component unit of the Hospital (see Note A.1). During the year ended June 30, 2016, contributions received from this organization were \$15,124 (\$44,952 for 2015).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE K - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The self-insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 220 active employees and 3 retirees currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management had an actuarial valuation performed dated November 16, 2015. The actuarial report noted the unfunded actuarial accrued liability to be \$223,139. The annual required contribution for the year end June 30, 2016 is \$27,348. The actuarial accrued liability is assuming a 20% participation rate; however, the Hospital's current participation rate is less than one percent. Because of the high assumed participation rate, management considers the actuarial accrued liability to be overstated. Management considers the liability to be immaterial and has not recorded this liability in its statements of net position.

NOTE L - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Montgomery County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Construction in Progress

As of June 30, 2016, the Hospital incurred costs of \$13,231 for the purchase of equipment and a roof replacement project. The total estimated cost is approximately \$535,000. The equipment and roof project are being financed through the use of internally generated funds.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2016 and 2015

NOTE L- COMMITMENTS AND CONTINGENCIES - Continued

Subsequent Event

The Hospital has evaluated all subsequent events through December 15, 2016, the date the financial statements were available to be issued.

NOTE M - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Receivable from:		
Patients	\$ 855,550	\$ 915,384
Medicare	6,066,171	2,953,194
Medicaid	1,119,451	544,374
Blue Cross	2,650,695	1,305,243
Other commercial insurance carriers	1,507,887	1,135,702
Others	<u>148,608</u>	<u>86,978</u>
	12,348,362	6,940,875
Less allowances for doubtful accounts and contractual adjustments	<u>4,303,000</u>	<u>1,933,000</u>
	<u>\$ 8,045,362</u>	<u>\$ 5,007,875</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year ended June 30, 2016

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for depreciation, interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,686,144	\$ --	\$ 1,686,144
Other revenues	35,753,219	66,621	35,819,840
Transfers in (out)	71,060	(71,060)	--
	<u>37,510,423</u>	<u>(4,439)</u>	<u>37,505,984</u>
Expenses	<u>35,395,554</u>	<u>--</u>	<u>35,395,554</u>
Net	2,114,869	(4,439)	2,110,430
Balance beginning of year	<u>17,422,588</u>	<u>67,872</u>	<u>17,490,460</u>
Balance end of year	<u>\$ 19,537,457</u>	<u>\$ 63,433</u>	<u>\$ 19,600,890</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,686,144	\$ --	\$ 1,686,144	\$ 1,599,766
Other revenues	<u>35,819,840</u>	<u>330,932</u>	<u>36,150,772</u>	<u>36,881,275</u>
	<u>37,505,984</u>	<u>330,932</u>	<u>37,836,916</u>	<u>38,481,041</u>
Expenses	<u>35,395,554</u>	<u>(539,179)</u>	<u>34,856,375</u>	<u>37,266,451</u>
Net	2,110,430	870,111	2,980,541	1,214,590
Balance beginning of year	<u>17,490,460</u>	<u>(2,094,320)</u>	<u>15,396,140</u>	<u>15,396,140</u>
Balance end of year	<u>\$ 19,600,890</u>	<u>\$ (1,224,209)</u>	<u>\$ 18,376,681</u>	<u>\$ 16,610,730</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of the Hospital's Proportionate Share of the Net IPERS Pension Liability
June 30, 2016

	<u>2016</u>	<u>2015</u>
Hospital's proportion of the net pension liability	0.204950%	0.195283%
Hospital's proportionate share of the net pension liability	\$ 10,126,000	\$ 7,903,000
Hospital's covered-employee payroll	\$ 14,058,000	\$ 13,047,000
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.03%	60.57%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available. Amounts reported are rounded.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Hospital IPERS Pension Contributions
Year Ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily required contribution	\$ 1,362,000	\$ 1,255,000	\$ 1,165,000	\$ 1,102,000
Contributions in relation to the statutorily required contribution	<u>(1,362,000)</u>	<u>(1,255,000)</u>	<u>(1,165,000)</u>	<u>(1,102,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Hospital's covered-employee payroll	\$ 15,239,000	\$ 14,058,000	\$ 13,047,000	\$ 12,710,000
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%

Note - Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 997,000	\$ 848,000	\$ 786,000	\$ 744,000	\$ 621,000	\$ 556,000
<u>(997,000)</u>	<u>(848,000)</u>	<u>(786,000)</u>	<u>(744,000)</u>	<u>(621,000)</u>	<u>(556,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 12,358,000	\$ 12,206,000	\$ 11,820,000	\$ 11,713,000	\$ 10,262,000	\$ 9,672,000
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

* * *

SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,704,332	13.8%	\$ 2,010,850	29.0%
31 - 90	4,158,138	33.6	2,164,981	31.2
91 - 180	786,720	6.4	503,572	7.3
181 - 360	333,842	2.7	399,193	5.8
361 and over	354,644	2.9	112,033	1.6
	7,337,676	59.4	5,190,629	74.9
In hospital and unbilled	5,010,686	40.6	1,750,246	25.1
	<u>12,348,362</u>	<u>100.0%</u>	<u>6,940,875</u>	<u>100.0%</u>

Less:

Allowance for doubtful accounts	777,000	530,000
Allowance for contractual adjustments	<u>3,526,000</u>	<u>1,403,000</u>
	<u>\$ 8,045,362</u>	<u>\$ 5,007,875</u>

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Balance, beginning	\$ 530,000	\$ 320,000
Provision for bad debts	1,215,006	1,070,322
Recoveries of accounts previously written off	<u>340,725</u>	<u>258,319</u>
	2,085,731	1,648,641
Accounts written off	<u>1,308,731</u>	<u>1,118,641</u>
Balance, ending	<u>\$ 777,000</u>	<u>\$ 530,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2016</u>	<u>2015</u>
<u>Inventory</u>		
General stores	\$ 94,992	\$ 95,217
Pharmacy	441,922	266,498
Dietary	14,613	16,691
Operating room	<u>151,819</u>	<u>190,146</u>
	<u>\$ 703,346</u>	<u>\$ 568,552</u>
 <u>Prepaid Expense</u>		
Dues	\$ 15,956	\$ 15,690
Insurance	363,935	236,515
Service contracts	<u>285,416</u>	<u>82,034</u>
	<u>\$ 665,307</u>	<u>\$ 334,239</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	2016	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,181,124	\$ 203,951
Coronary care	1,521,080	298,372
Nursery	80,301	--
	<u>2,782,505</u>	<u>502,323</u>
Other Nursing Services:		
Operating room	335,278	4,342,136
Recovery room	6,240	165,645
Labor and delivery rooms	65,195	27,460
Medical supplies	539,061	1,523,431
Intravenous therapy	509,134	982,764
Emergency service	2,649	3,693,688
Wound/ostomy care	3,768	88,621
Outpatient clinics	2,266	701,320
Mobile health clinic	--	288,719
	<u>1,463,591</u>	<u>11,813,784</u>
Other Professional Services:		
Emergency room physicians	574	1,946,409
Laboratory	777,627	4,262,530
Electrocardiology	162,842	727,335
Electroencephalography	8,552	19,587
Radiology	128,686	1,941,302
Ultrasound	79,663	1,084,237
CT scan	232,607	3,734,136
Mammography	603	588,167
MRI	124,816	1,159,710
Nuclear medicine	11,469	235,320
Pharmacy	1,485,933	2,379,928
Anesthesiology	93,037	821,371
Inhalation therapy	912,752	423,555
Physical therapy	110,664	1,320,104
Speech therapy	12,574	63,746
Occupational therapy	27,439	197,394
Cardiopulmonary rehabilitation	--	184,658
Oncology	25,307	8,249,662
Sleep study	--	266,199
Home health	--	274,836
Hospice	--	612,569
Business health	--	185,431
Women's Health Clinic	--	585,092
Villisca Medical Clinic	--	313,916
Surgical services	--	1,302,465
Internal Medicine Clinic	--	4,419,501
	<u>4,195,145</u>	<u>37,299,160</u>
	<u>\$ 8,441,241</u>	<u>\$ 49,615,267</u>

See Independent Auditor's Report.

2016		2015
Swing Bed	Total	Total
\$ 1,219,075	\$ 2,604,150	\$ 2,454,493
--	1,819,452	1,725,686
--	80,301	93,300
<u>1,219,075</u>	<u>4,503,903</u>	<u>4,273,479</u>
21,557	4,698,971	3,410,245
75	171,960	159,645
--	92,655	95,084
105,458	2,167,950	2,077,332
149,192	1,641,090	3,064,214
--	3,696,337	2,255,185
3,785	96,174	136,677
239	703,825	551,926
--	288,719	146,982
<u>280,306</u>	<u>13,557,681</u>	<u>11,897,290</u>
--	1,946,983	1,955,951
176,469	5,216,626	3,886,006
8,522	898,699	593,961
713	28,852	45,125
30,637	2,100,625	1,989,648
6,513	1,170,413	1,071,553
31,367	3,998,110	3,811,986
--	588,770	511,504
28,928	1,313,454	1,259,560
6,004	252,793	396,945
799,904	4,665,765	4,422,022
4,413	918,821	760,559
415,864	1,752,171	1,695,335
217,458	1,648,226	1,519,983
11,663	87,983	64,023
58,135	282,968	252,791
--	184,658	172,492
10,591	8,285,560	1,466,756
--	266,199	296,220
--	274,836	426,984
--	612,569	658,493
--	185,431	171,675
--	585,092	551,331
--	313,916	353,594
--	1,302,465	1,296,856
--	4,419,501	3,221,827
<u>1,807,181</u>	<u>43,301,486</u>	<u>32,853,180</u>
\$ 3,306,562	\$ 61,363,070	\$ 49,023,949

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 61,363,070	\$ 49,023,949
Contractual adjustments	(24,852,137)	(17,415,279)
Discounts and allowances	(184,021)	(173,685)
Charity care	(13,755)	(40,352)
Provision for bad debts	(1,215,006)	(1,070,322)
	<u>\$ 35,098,151</u>	<u>\$ 30,324,311</u>
Other Operating Revenue:		
Meals sold	\$ 88,915	\$ 105,363
Prisoner meals	44,343	40,906
Meals on wheels	26,527	29,333
Lifeline	67,999	67,267
Medical record transcripts	2,148	719
Retail pharmacy - 340B program, net	428,092	249,516
Case management	32,485	21,320
Wellness	973	29,934
Contracted services	28,886	27,679
Miscellaneous	76,379	106,002
	<u>\$ 796,747</u>	<u>\$ 678,039</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Administrative:		
Salaries and wages	\$ 143,683	\$ 155,644
Employee benefits	53,103	61,012
Supplies and other expense	<u>12,097</u>	<u>13,797</u>
	208,883	230,453
Quality Assurance:		
Salaries and wages	76,585	72,949
Employee benefits	23,227	31,469
Supplies and other expense	<u>8,154</u>	<u>11,436</u>
	107,966	115,854
Inservice:		
Salaries and wages	77,328	70,457
Employee benefits	37,741	35,403
Supplies and other expense	<u>35,372</u>	<u>37,264</u>
	150,441	143,124
Medical and Surgical:		
Salaries and wages	1,659,240	1,719,012
Employee benefits	610,444	620,023
Supplies and other expense	<u>100,981</u>	<u>110,602</u>
	2,370,665	2,449,637
Coronary Care:		
Salaries and wages	962,977	1,015,560
Employee benefits	384,698	407,825
Supplies and other expense	<u>98,506</u>	<u>55,192</u>
	1,446,181	1,478,577
Obstetric:		
Salaries and wages	20,581	23,597
Employee benefits	3,412	3,912
Supplies and other expense	<u>39,286</u>	<u>46,443</u>
	63,279	73,952

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Nursery:		
Salaries and wages	\$ 24,245	\$ 27,919
Employee benefits	4,020	4,629
Supplies and other expense	<u>1,796</u>	<u>159</u>
	30,061	32,707
Operating Room:		
Salaries and wages	558,961	518,722
Employee benefits	191,487	179,739
Supplies and other expense	<u>983,884</u>	<u>704,404</u>
	1,734,332	1,402,865
Labor and Delivery:		
Salaries and wages	12,480	13,484
Employee benefits	2,069	2,236
Supplies and other expense	<u>23</u>	<u>427</u>
	14,572	16,147
Central Services and Supply:		
Salaries and wages	150,416	168,260
Employee benefits	75,151	72,196
Supplies sold to patients	248,062	297,268
Supplies and other expense	<u>14,605</u>	<u>20,911</u>
	488,234	558,635
Intravenous Therapy:		
Solutions	33,304	42,733
Emergency Services:		
Salaries and wages	669,007	596,200
Employee benefits	139,594	122,347
Supplies and other expense	<u>60,110</u>	<u>49,800</u>
	868,711	768,347
Outpatient Clinics:		
Salaries and wages	360,890	402,713
Employee benefits	168,618	151,679
Supplies and other expense	<u>74,804</u>	<u>92,263</u>
	604,312	646,655

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Wellness:		
Salaries and wages	\$ 89,894	\$ 38,115
Employee benefits	30,422	16,377
Supplies and other expense	<u>28,853</u>	<u>5,828</u>
	149,169	60,320
Mobile Health Clinics:		
Salaries and wages	204,407	150,516
Employee benefits	46,179	34,802
Supplies and other expense	<u>40,726</u>	<u>42,826</u>
	291,312	228,144
	<u>\$ 8,561,422</u>	<u>\$ 8,248,150</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 5,010,694	\$ 4,973,148
Employee benefits	1,770,165	1,743,649
Other expense	<u>1,780,563</u>	<u>1,531,353</u>
	<u>\$ 8,561,422</u>	<u>\$ 8,248,150</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Emergency Room Physicians: Professional fees	\$ 1,009,877	\$ 999,604
Laboratory:		
Salaries and wages	503,762	524,250
Employee benefits	157,955	147,160
Purchased services	320,534	223,656
Supplies and other expense	<u>431,373</u>	<u>440,673</u>
	1,413,624	1,335,739
Blood Bank:		
Cost of blood	80,206	97,090
Electrocardiology:		
Salaries and wages	20,549	22,008
Employee benefits	3,392	3,631
Purchased services	136,859	62,831
Supplies and other expense	<u>491</u>	<u>14</u>
	161,291	88,484
Electroencephalography:		
Salaries and wages	1,021	719
Employee benefits	<u>162</u>	<u>119</u>
	1,183	838
Radiology:		
Salaries and wages	500,900	491,281
Employee benefits	166,673	178,515
Supplies and other expense	<u>328,242</u>	<u>266,168</u>
	995,815	935,964
Ultrasound:		
Salaries and wages	101,998	99,622
Employee benefits	32,701	30,131
Supplies and other expense	<u>29,212</u>	<u>38,413</u>
	163,911	168,166

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
CT Scan:		
Supplies and other expense	\$ 134,256	\$ 160,605
Mammography:		
Purchased services	21,874	72,581
Supplies and other expense	<u>21,106</u>	<u>17,398</u>
	42,980	89,979
MRI:		
Purchased services	126,443	125,838
Supplies and other expense	<u>3,204</u>	<u>5,785</u>
	129,647	131,623
Nuclear Medicine:		
Purchased services	56,201	46,465
Supplies and other expense	<u>4,266</u>	<u>4,682</u>
	60,467	51,147
Pharmacy:		
Salaries and wages	401,205	359,309
Employee benefits	97,510	85,505
Purchased services	3,950	33,684
Drugs	745,918	687,192
Supplies and other expense	<u>35,683</u>	<u>34,432</u>
	1,284,266	1,200,122
Anesthesiology:		
Salaries and wages	459,622	399,851
Employee benefits	102,306	86,675
Professional fees	67,300	2,085
Supplies and other expense	<u>63,959</u>	<u>43,236</u>
	693,187	531,847
Inhalation Therapy:		
Salaries and wages	327,802	339,668
Employee benefits	110,700	101,626
Professional fees	--	962
Supplies and other expense	<u>35,735</u>	<u>41,137</u>
	474,237	483,393

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Physical Therapy:		
Professional fees	\$ 605,520	\$ 553,214
Supplies and other expense	<u>18,960</u>	<u>21,606</u>
	624,480	574,820
Speech Therapy:		
Professional fees	49,559	52,300
Supplies and other expense	<u>12</u>	<u>24</u>
	49,571	52,324
Occupational Therapy:		
Professional fees	105,119	90,633
Cardiopulmonary Rehabilitation:		
Salaries and wages	125,337	115,111
Employee benefits	51,366	33,987
Supplies and other expense	<u>1,215</u>	<u>4,016</u>
	177,918	153,114
Oncology:		
Salaries and wages	516,854	191,731
Employee benefits	137,644	44,591
Supplies and other expense	<u>2,191,326</u>	<u>628,525</u>
	2,845,824	864,847
Sleep Study:		
Salaries and wages	55,416	64,103
Employee benefits	25,017	25,243
Supplies and other expense	<u>7,614</u>	<u>13,421</u>
	88,047	102,767
Home Health:		
Salaries and wages	193,136	239,176
Employee benefits	113,798	134,616
Professional fees	37,502	56,835
Purchased services	12,622	12,320
Supplies and other expense	<u>15,122</u>	<u>25,275</u>
	372,180	468,222

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Hospice:		
Salaries and wages	\$ 147,189	\$ 148,641
Employee benefits	30,269	30,031
Purchased services	146,791	116,102
Supplies and other expense	<u>56,318</u>	<u>67,233</u>
	380,567	362,007
Business Health:		
Salaries and wages	79,984	55,373
Employee benefits	18,130	13,394
Supplies and other expense	<u>44,548</u>	<u>28,042</u>
	142,662	96,809
Women's Health Clinic:		
Salaries and wages	346,796	350,164
Employee benefits	107,022	108,412
Supplies and other expense	<u>45,872</u>	<u>60,820</u>
	499,690	519,396
Villisca Medical Clinic:		
Salaries and wages	185,776	187,936
Employee benefits	52,707	56,845
Supplies and other expense	<u>65,381</u>	<u>78,851</u>
	303,864	323,632
Surgical Services:		
Salaries and wages	526,643	413,777
Employee benefits	88,417	61,625
Supplies and other expense	<u>51,591</u>	<u>36,814</u>
	666,651	512,216
Internal Medicine Clinic:		
Salaries and wages	2,150,645	1,437,793
Employee benefits	580,049	399,016
Purchased services	47,152	61,127
Supplies and other expense	<u>160,878</u>	<u>143,026</u>
	2,938,724	2,040,962
Social Services:		
Salaries and wages	106,840	117,594
Employee benefits	31,231	29,363
Supplies and other expense	<u>2,452</u>	<u>2,247</u>
	140,523	149,204

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Lifeline:		
Supplies and other expense	\$ 48,845	\$ 52,043
Health Information Management:		
Salaries and wages	371,264	344,861
Employee benefits	125,807	118,822
Supplies and other expense	<u>63,874</u>	<u>40,953</u>
	560,945	504,636
Case Management:		
Salaries and wages	5,821	--
Employee benefits	369	--
Supplies and other expense	<u>2,696</u>	<u>2,194</u>
	8,886	2,194
Diabetes Program:		
Salaries and wages	89,962	75,003
Employee benefits	30,588	27,275
Supplies and other expense	<u>1,932</u>	<u>4,815</u>
	122,482	107,093
Wound/Ostomy Care:		
Purchased services	68,318	85,779
Supplies and other expense	<u>7,103</u>	<u>5,900</u>
	<u>75,421</u>	<u>91,679</u>
	<u>\$ 16,797,346</u>	<u>\$ 13,343,199</u>

SUMMARY

Salaries and wages	\$ 7,218,522	\$ 5,977,971
Employee benefits	2,063,813	1,716,582
Professional fees	1,874,877	1,755,633
Other expense	<u>5,640,134</u>	<u>3,893,013</u>
	<u>\$ 16,797,346</u>	<u>\$ 13,343,199</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Dietary:		
Salaries and wages	\$ 541,470	\$ 508,165
Employee benefits	216,026	217,485
Food	242,238	238,847
Supplies and other expense	<u>63,328</u>	<u>53,845</u>
	1,063,062	1,018,342
Housekeeping:		
Salaries and wages	460,807	470,282
Employee benefits	197,916	220,996
Purchased services	23,453	20,033
Supplies and other expense	<u>107,481</u>	<u>102,689</u>
	789,657	814,000
Laundry and Linen:		
Purchased services	108,235	109,495
Supplies and other expense	<u>1,198</u>	<u>2,439</u>
	109,433	111,934
Plant Engineering:		
Salaries and wages	224,002	217,936
Employee benefits	63,599	61,962
Utilities	440,571	387,309
Purchased services	45,935	37,286
Supplies and other expense	<u>292,052</u>	<u>324,660</u>
	1,066,159	1,029,153
	<u>\$ 3,028,311</u>	<u>\$ 2,973,429</u>

SUMMARY

Salaries and wages	\$ 1,226,279	\$ 1,196,383
Employee benefits	477,541	500,443
Other expense	<u>1,324,491</u>	<u>1,276,603</u>
	<u>\$ 3,028,311</u>	<u>\$ 2,973,429</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Administrative:		
Salaries and wages	\$ 267,508	\$ 245,854
Employee benefits	285,671	255,588
Professional fees	90,729	107,195
Dues and subscriptions	59,816	63,889
Purchased services	52,311	64,603
Collection fees	73,367	68,479
Telephone	32,546	31,017
Supplies and other expense	173,527	155,180
Pension expense adjustment	(429,344)	(672,548)
	<u>606,131</u>	<u>319,257</u>
Accounting:		
Salaries and wages	413,629	253,621
Employee benefits	100,691	78,276
Supplies and other expense	81,080	10,159
	<u>595,400</u>	<u>342,056</u>
Admissions/Business Office:		
Salaries and wages	276,069	251,000
Employee benefits	141,640	110,329
Supplies and other expense	24,147	27,013
	<u>441,856</u>	<u>388,342</u>
Patient Accounting:		
Salaries and wages	323,732	314,115
Employee benefits	129,489	125,796
Supplies and other expense	75,229	70,483
	<u>528,450</u>	<u>510,394</u>
Fiscal Services:		
Salaries and wages	154,480	151,168
Employee benefits	92,743	83,333
Purchased services	100	6,588
Supplies and other expense	7,879	6,512
	<u>255,202</u>	<u>247,601</u>
Information Systems:		
Salaries and wages	697,900	763,740
Employee benefits	221,319	239,883
Purchased services and maintenance	507,667	466,141
Supplies and other expense	69,547	64,642
	<u>1,496,433</u>	<u>1,534,406</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Human Resources:		
Salaries and wages	\$ 162,114	\$ 111,231
Employee benefits	65,559	62,175
Purchased services	7,361	7,559
Supplies and other expense	<u>61,308</u>	<u>85,227</u>
	296,342	266,192
Public Relations:		
Salaries and wages	119,206	96,009
Employee benefits	39,120	23,048
Supplies and other expense	<u>210,922</u>	<u>174,043</u>
	369,248	293,100
DRG/Utilization Review:		
Salaries and wages	118,226	113,452
Employee benefits	33,094	32,057
Purchased services	150	--
Supplies and other expense	<u>8,169</u>	<u>2,285</u>
	159,639	147,794
Insurance:		
Liability and property insurance	<u>160,981</u>	<u>131,204</u>
	<u>\$ 4,909,682</u>	<u>\$ 4,180,346</u>

SUMMARY

Salaries and wages	\$ 2,532,864	\$ 2,300,190
Employee benefits	1,109,326	1,010,485
Professional fees	90,729	107,195
Other expense	<u>1,176,763</u>	<u>762,476</u>
	<u>\$ 4,909,682</u>	<u>\$ 4,180,346</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 15,988,359	\$ 14,447,692
Employee benefits	5,420,845	4,971,159
Professional fees	1,965,606	1,862,828
Other expense	<u>9,921,951</u>	<u>7,463,445</u>
	<u>\$ 33,296,761</u>	<u>\$ 28,745,124</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Admissions	680	795	717	767	798
Discharges	684	794	722	759	797
Average Length of Stay	3.59	3.73	3.51	3.77	3.70
Acute Patient Days	2,457	2,959	2,533	2,861	2,947
Average Occupied Beds	6.7	8.1	6.9	7.8	8.1
Swing Bed Days	1,712	1,973	2,288	2,141	2,755
Combined Average Occupied Beds	11.4	13.5	13.2	13.7	15.6
Beds Available	25	25	25	25	25
Nursery Days	96	119	116	123	150
Outpatient Occasions of Service	48,046	42,338	38,707	37,890	39,031

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statements of Net Position
June 30,

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash	\$ 921,959	\$ 1,328,290
Receivables, net	8,068,152	5,235,772
Inventory	703,346	568,552
Prepaid expense	665,307	334,239
Estimated third-party payor settlements	100,000	--
Succeeding year property tax receivable	1,693,000	1,600,000
Internally designated assets	79,285	83,797
Total current assets	<u>12,231,049</u>	<u>9,150,650</u>
Other Assets:		
Internally designated and restricted assets	8,699,443	9,681,324
Capital assets, net	17,725,251	19,111,380
Other non-current assets	610,896	548,915
Total other assets	<u>27,035,590</u>	<u>29,341,619</u>
Deferred Outflows of Resources - Pension	<u>2,133,042</u>	<u>1,652,795</u>
Total assets and deferred outflows of resources	<u>\$ 41,399,681</u>	<u>\$ 40,145,064</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 567,211	\$ 506,948
Accounts payable	798,841	697,879
Estimated third-party payor settlements	--	900,000
Accrued expenses	2,165,829	1,852,999
Total current liabilities	<u>3,531,881</u>	<u>3,957,826</u>
Long-Term Liabilities:		
Long-term debt, net	5,605,671	6,179,442
Net pension liability	10,125,530	7,903,260
Total liabilities	<u>19,263,082</u>	<u>18,040,528</u>
Deferred Inflows of Resources	2,535,709	4,614,076
Net Position	<u>19,600,890</u>	<u>17,490,460</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 41,399,681</u>	<u>\$ 40,145,064</u>

See Independent Auditor's Report.

Not Restated		
2014	2013	2012
\$ 1,121,704	\$ 677,678	\$ 1,657,621
4,557,111	4,885,015	4,706,719
530,715	380,900	396,487
343,783	299,933	168,973
86,000	953,000	--
1,599,000	1,525,000	1,469,000
83,988	88,201	92,406
<u>8,322,301</u>	<u>8,809,727</u>	<u>8,491,206</u>
8,764,329	7,248,921	6,403,545
18,962,253	19,985,689	21,455,529
657,338	540,107	518,817
<u>28,383,920</u>	<u>27,774,717</u>	<u>28,377,891</u>
--	--	--
<u>\$ 36,706,221</u>	<u>\$ 36,584,444</u>	<u>\$ 36,869,097</u>
\$ 484,164	\$ 462,404	\$ 434,609
956,318	756,426	1,167,688
--	--	207,000
<u>1,712,749</u>	<u>1,697,225</u>	<u>1,568,097</u>
3,153,231	2,916,055	3,377,394
6,686,386	7,170,476	7,632,880
--	--	--
<u>9,839,617</u>	<u>10,086,531</u>	<u>11,010,274</u>
1,599,000	1,525,000	1,469,000
<u>25,267,604</u>	<u>24,972,913</u>	<u>24,389,823</u>
<u>\$ 36,706,221</u>	<u>\$ 36,584,444</u>	<u>\$ 36,869,097</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2016</u>	<u>2015</u>
Patient Service Revenue	\$ 61,363,070	\$ 49,023,949
Adjustments to Patient Service Revenue	<u>(26,264,919)</u>	<u>(18,699,638)</u>
Net Patient Service Revenue	35,098,151	30,324,311
Other Revenue	<u>796,747</u>	<u>678,039</u>
Total Revenue	35,894,898	31,002,350
Expenses	<u>35,395,554</u>	<u>30,779,820</u>
Operating Income (Loss)	499,344	222,530
Non-Operating Revenue, Net	<u>1,544,465</u>	<u>1,872,463</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	2,043,809	2,094,993
Capital Grants and Contributions	<u>66,621</u>	<u>64,952</u>
Increase in Net Position	<u>\$ 2,110,430</u>	<u>\$ 2,159,945</u>

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	Not Restated	
<u>2014</u>	<u>2013</u>	<u>2012</u>
\$ 44,745,503	\$ 43,209,451	\$ 42,392,117
<u>(16,896,376)</u>	<u>(16,079,693)</u>	<u>(15,890,946)</u>
27,849,127	27,129,758	26,501,171
<u>408,587</u>	<u>392,062</u>	<u>389,145</u>
28,257,714	27,521,820	26,890,316
<u>29,599,515</u>	<u>28,375,746</u>	<u>27,493,396</u>
(1,341,801)	(853,926)	(603,080)
<u>1,514,172</u>	<u>1,406,016</u>	<u>1,337,085</u>
172,371	552,090	734,005
<u>122,320</u>	<u>31,000</u>	<u>93,116</u>
<u>\$ 294,691</u>	<u>\$ 583,090</u>	<u>\$ 827,121</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Montgomery County Memorial Hospital
Red Oak, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Montgomery County Memorial Hospital, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montgomery County Memorial Hospital's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montgomery County Memorial Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Montgomery County Memorial Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 16-I-A.

To the Board of Trustees
Montgomery County Memorial Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County Memorial Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

Montgomery County Memorial Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Montgomery County Memorial Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gmewell, Ben, Lyhna & Co. P. C.

Atlantic, Iowa
December 15, 2016

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2016

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies:

16-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2016

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

16-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2016 did not exceed amounts budgeted.

16-II-B Questionable Expenditures: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Board members.

16-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

16-II-D Business Transactions: During our audit, we noted no business transactions between the Hospital and Hospital officials.

16-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

16-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

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